Saskatchewan
Agriculture
and Food

Annual Report 1999-2000

Agricultural Credit Corporation of Saskatchewan

LETTER OF TRANSMITTAL

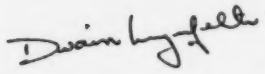
Regina, Saskatchewan
July 31, 2000

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2000.

Respectfully submitted,



Honourable Dwain Lingenfelter
Minister Responsible for the
Agricultural Credit Corporation of Saskatchewan

YEAR IN REVIEW

During the fiscal year 1999/00, the Corporation continued the wind-up with a reduction in both loans and employees. While the farm income situation has made it difficult for some customers to maintain their loans in a current position, the Corporation has been able to reduce the outstanding portfolio and the overall level of delinquency from the year earlier position.

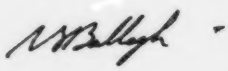
For 1999-00 a target of resolving 700 loans > 400 days delinquent was established. At March 31, 2000 a total of 794 of these target loans had been resolved. The efforts of staff in achieving these targets are commendable. They have worked diligently and sensitively with customers in reaching a resolution to many difficult loan situations.

When the announcement to wind up ACS was made in March of 1996, approximately $382.5 million was outstanding to 20,500 customers under all loan programs. Of this total, $94 million was in a delinquent status. Staff positions remaining at March 31, 1996 numbered 152.55.

After four years of wind up, outstanding loans have been reduced to $106.1 million of which $18.7 million is delinquent. Staff numbers at March 31, 2000 were 42.0 positions.

During the coming year, the majority of remaining employees will be transferred into the Department of Agriculture and Food to continue the administration of the loan portfolio. The outstanding loans are on repayment terms which, for the most part, mature between 2001 and 2015. This arrangement will ensure that staff will be available to collect the remaining loans.

At the end of this fiscal year I will be leaving my position as General Manager of ACS, the position I have held for the past 17 years. I want to take this opportunity to thank ACS staff and my colleagues for making this a rewarding experience.



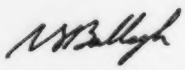
Norm Ballagh
General Manager

MANAGEMENT'S RESPONSIBILITY FOR THE ANNUAL REPORT

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where estimates are used they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors met periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by PricewaterhouseCoopers LLP whose report follows.



Norm Ballagh
General Manager

Swift Current, Saskatchewan
April 27, 2000

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the balance sheet of **Agricultural Credit Corporation of Saskatchewan** as at March 31, 2000 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Price Waterhouse Coopers LLP

Chartered Accountants

Regina, Saskatchewan
April 27, 2000

BALANCE SHEET

	March 31 2000	1999
	(In thousands)	
Assets		
Cash and short term investments	$ 11,003	$ 462
Accounts receivable	70	3,118
Loans receivable *(Notes 3, 4 & 5)*	64,299	86,663
Assets held for resale *(Notes 5 & 6)*	10,989	12,118
Capital assets *(Note 7)*	296	335
Prepaid and deferred costs	152	357
	$ 86,809	$ 103,053
Liabilities		
Interest and other accrued payables	$ 7,845	$ 7,729
Unexpended grants payable *(Schedule 2)*	269	305
Long-term debt *(Note 8)*	77,894	94,179
	86,008	102,213
Equity		
Equity in capital assets (Note 7)	296	335
Accumulated surplus	505	505
	801	840
	$ 86,809	$ 103,053

Contingencies and commitments (Note 10)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS AND SURPLUS
For the year ended March 31

	Budget 2000 (unaudited) (Note 15)	Actual 2000	Actual 1999
		(In thousands)	
Interest and dividend income *(Note 9)*			
Loans receivable	$ 10,436	$ 11,089	$ 13,533
Sinking fund and short term investments	8,110	6,404	8,218
	18,546	17,493	21,751
Interest expense			
Long-term debt	29,146	29,143	30,589
Net interest expense	10,600	11,650	8,838
Provision for losses *(Note 5)*	-	(1,050)	2,748
Counselling and assistance for farmers program claim	-	-	(9)
Administrative expenses *(Schedule 1)*	6,522	5,510	6,700
Other income	(642)	(496)	(961)
Loss before grants	16,480	15,614	17,316
Grants *(Schedule 2)*	16,533	15,883	17,621
Surplus before unexpended grants repayable	53	269	305
Unexpended grants repayable *(Schedule 2)*	-	(269)	(305)
Surplus for the year	53	-	-
Surplus - Beginning of year	505	505	505
Surplus - End of year	$ 558	$ 505	$ 505

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
For the year ended March 31

	2000	1999
	(In thousands)	
Cash provided by (used in):		
Operating activities		
Change in working capital other than cash (Note 12)	**$ 2,463**	$ 5,633
New loans advanced	**-**	(2)
Principal payments received	**21,439**	27,923
(Increase) decrease in accounts receivable	**3,048**	(3,057)
(Decrease) Increase in unexpended grant repayable	**(36)**	181
Decrease in CAFF claims payable	**-**	(9)
Increase (decrease) in other operating activities	**(88)**	131
	24,363	25,167
	26,826	30,800
Financing activities		
Decrease in long-term debt	**(16,285)**	(30,555)
Net increase in cash	**10,541**	245
Cash and other equivalents - Beginning of the year	**462**	217
Cash and other equivalents - End of the year	**$ 11,003**	$ 462

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
March 31, 2000

1. Status of the Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS) is a Corporation that acts as an agent of the Government of Saskatchewan and provides financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that ACS would be wound up.

2. Significant accounting policies

a) Under Section 29 of The Agricultural Credit Corporation of Saskatchewan Act, the Minister of Agriculture and Food may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the Balance sheet as Unexpended grants repayable.

New expenditures incurred in a fiscal year which exceed the grant provided for that purpose are reported as a deficit for the year and may be recovered from the grant to be received for that purpose in a subsequent year.

b) Amounts recovered from customers for capital grants paid to them in prior years and amounts recovered for guarantees paid under discontinued programs are retained by the Corporation and are reported as surplus.

c) Capital assets are expensed in the year of purchase. To maintain accountability, these assets are reflected on the Balance sheet, net of accumulated depreciation, with an offsetting equity balance. All Capital assets are depreciated on a straight-line basis over a five year period.

d) Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and are included in Interest expense on long-term debt. The unamortized costs are carried on the Balance sheet in Prepaid and deferred costs.

e) The Allowance for losses represents management's estimate of possible losses on loans and debentures outstanding at the end of the fiscal year. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the allowance for losses. This allowance has been based, in general, upon an estimate derived from a sample of outstanding loans and, in part, on a review of existing impaired loans.

f) The Corporation records, as Assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. These asset values are adjusted annually for carrying costs and for the income or loss from any operations associated with the assets.

3. *Loan programs*

a) Capital loan program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 6% and 13 ½%. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment loan program

Investment loans bear interest at rates between 8 ½% and 10 ½% and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production loan program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6%, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2%. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock cash advance program

Effective August 1, 1993, customers with Livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2% over a maximum five year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Spring seeding loan program

During the 1992 fiscal year, the Corporation paid out $48.6 million to honour guarantees on loans granted by financial institutions under the Spring seeding loan program. The loans bear interest at prime plus 2%.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

f) Counselling and assistance for farmers program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees, which were outstanding under the Counselling, and assistance for farmers program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995 at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5%.

The loans are secured by way of an assignment of security from the original lender.

g) Other loans

The Corporation is continuing collection of cash advances made to cattle producers up to March 31, 1980 under Part VI, VII, VIII of the Regulations under The Agricultural Incentives Act.

The loans are secured by promissory notes.

4. *Loans receivable*

	2000			1999		
	Gross	**Allowance**	**Net**	Gross	Allowance	Net
			(In thousands)			
Capital loans	**$ 92,687**	**$ 31,904**	**$ 60,783**	$ 112,577	$ 34,649	$ 77,928
Investment loans	**940**	**312**	**628**	3,460	339	3,121
Production loans	**3,254**	**1,653**	**1,601**	5,591	2,944	2,647
Livestock cash advances	**2,324**	**1,097**	**1,227**	5,038	2,162	2,876
Spring seeding loans	**78**	**18**	**60**	143	52	91
Counselling and assistance for farmers loans	**2,149**	**2,149**	**-**	3,159	3,159	-
Other loans	**2**	**2**	**-**	2	2	-
	$ 101,434	**$ 37,135**	**$ 64,299**	$ 129,970	$ 43,307	$ 86,663

During the year a number of the Corporation's customers refinanced their Production loans, Livestock cash advances, Spring seeding loans and Counselling and assistance for farmers loans under the Capital loan program.

5. *Allowance for losses*

	Loans	**Assets held for resale**	**2000**	1999
			(In thousands)	
Balance - Beginning of year	**$ 43,307**	**$ 3,902**	**$ 47,209**	$ 51,390
Provision for losses	**(294)**	**(756)**	**(1,050)**	2,748
Losses and write-offs	**(5,878)**	**274**	**(5,604)**	(6,929)
Balance - End of the year	**$ 37,135**	**$ 3,420**	**$ 40,555**	$ 47,209

The allowance for loan losses for Capital loans approved prior to October 1, 1987, Production loans, Livestock cash advances, Spring seeding loans, Counselling and assistance for farmers loans and Other loans is funded by a grant from Province of Saskatchewan, Department of Agriculture and Food.

6. Assets held for resale

	2000	1999
	(In thousands)	
Cost	**$ 14,409**	$ 16,020
Allowance for losses	**(3,420)**	(3,902)
	$ 10,989	$ 12,118

7. Capital assets and equity in capital assets

	2000	1999
	(In thousands)	
Cost	**$ 3,359**	$ 3,320
Accumulated depreciation	**(3,063)**	(2,985)
	$ 296	$ 335

8. Borrowing

Sections 17 and 19 of The Agricultural Credit Corporation of Saskatchewan Act allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2,000,000,000.

a) Long-term debt

All long-term debt is repayable to the Province of Saskatchewan General Revenue Fund. Interest is payable semi-annually with principal due at maturity.

The weighted average interest rates of this debt follows:

Year of Maturity	2000 Amount Due	2000 Weighted Average Interest Rate	1999 Amount Due	1999 Weighted Average Interest Rate
	(In thousands)			
Debentures				
2001	**$ 28,600**	**12.36%**	$ 28,600	12.36%
2002	**33,000**	**15.75%**	33,000	15.75%
2003	**20,434**	**15.89%**	20,434	15.89%
2004	**13,517**	**11.59%**	13,517	11.59%
	95,551	**13.52%**	95,551	13.52%
Bonds				
2001	**140,000**	**11.00%**	140,000	11.00%
	235,551	**12.02%**	235,551	12.02%
Less: Equity in sinking fund	**157,657**		141,372	
	$ 77,894		$ 94,179	

A sinking fund was established in 1996/97 to provide payment of the bonds and debentures as they mature. The sinking fund is with the Department of Finance.

9. *Interest income*

Interest income and dividend income

	2000	1999
	(In thousands)	
Loans receivable	**$ 10,235**	$ 13,472
Interest recognized on impaired loans	**854**	61
Short-term investments	**318**	180
Sinking fund investments	**6,086**	8,038
	$ 17,493	$ 21,751

10. Guaranteed loans under The Agricultural Credit Corporation of Saskatchewan Act

Guarantees may be provided by the Corporation to vendors under the Guaranteed vendor mortgage program for the sale of farm land and existing improvements. The guarantees are for 100% of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2000 was $536,000 (1999 - $660,000).

11. Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions with various Saskatchewan crown-controlled departments, agencies and corporations with which the Corporation is related. Transactions with these parties are recorded at what management believes are normal market prices. Account balances from these transactions are included in the Balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described separately in the financial statements and notes thereto.

Included in accounts receivable at March 31, 2000 is $nil (1999 - $3,052,000) from Saskatchewan Agriculture and Food to fund administration, loan loss and interest subsidy expenses. As well, at March 31, 2000, the Corporation owes $6,906,000 (1999 - $6,906,000) (included with interest and other accrued payables) to the Province of Saskatchewan General Revenue Fund for interest on long-term debt. The Corporation also has loans receivable of $nil (1999 - $2,379,000) from a customer with which Crown Investments Corporation of Saskatchewan has a controlling interest. In addition, included in cash and short-term investments is $10,944,000 of short-term investments held with the Department of Finance.

During the year, the Corporation paid $425,000 (1999 - $594,000) to Saskatchewan Property Management Corporation primarily for office occupancy expenses. The lease terms have been negotiated for 5 to 10 year periods with an option to relinquish the lease space with three months notice.

In addition, the Corporation also paid $716,905 (1999- $633,000) to other related parties at normal trade terms.

The expenses paid to the related parties were included with the total Administration expenses.

During the year the Corporation was responsible for collection of inactive accounts on behalf of Saskatchewan Crop Insurance Corporation (SCIC) and Lands Branch. For these services, a commission of $258,153 was received from SCIC and is included in other income.

12. Change in working capital other than cash

	2000	1999
	(In thousands)	
Decrease in accrued interest on loans receivable	$ 1,628	$ 2,501
Increase (decrease) in accrued interest on debt payable	-	(1,113)
Provision for losses	(1,050)	2,748
Increase in other non-cash items	1,885	1,497
	$ 2,463	$ 5,633

13. *Financial instruments*

Fair values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

a) Cash, short-term investments, acounts receivable, interest and other accrued payables:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

c) Notes payable and debentures payable:

The estimated fair values for all long-term debt obligations and the sinking fund are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements. The estimated fair values of these financial instruments may not represent the amounts that could be realized upon settlement.

The estimated fair values of the Corporation's debt instruments are as follows:

	2000		1999	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
	(In thousands)			
Debentures payable	**$ 95,551**	**$ 105,049**	$ 95,551	$ 109,503
Bonds payable	**140,000**	**142,569**	140,000	145,560
Sinking fund	**(157,657)**	**(156,770)**	(141,372)	(141,563)
	$ 77,894	**$ 90,848**	$ 94,179	$ 113,500

Credit risk management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Corporation requires security agreements and personal guarantees on all loans.

Interest rate risk management

The Corporation manages interest rate risk by borrowing long-term debt through the Province of Saskatchewan General Revenue Fund at fixed interest rates and terms designated to match the average terms of the Corporation's loan portfolio.

14. Uncertainty due to Year 2000 issues

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

15. Budget figures

The Budget figures are presented for comparison purposes, are unaudited, and are those approved by the Board, reclassified to conform with the presentation of these financial statements.

SCHEDULE 1
For year ended March 31

Administrative Expenses

	2000	1999
	(In thousands)	
Communications	$ 126	$ 179
Legal and registration fees	285	401
Management information systems	164	475
Office occupancy	397	573
Professional services	108	146
Salaries and benefits	3,349	4,115
Severance costs due to wind up	786	460
Supplies and office equipment	81	82
Travel and sustenance	214	269
	$ 5,510	$ 6,700

SCHEDULE 2

Grants from Province of Saskatchewan - Department of Agriculture and Food

As described in Note 2a, the following table summarizes grant activity for the year ended March 31, 2000.

	Administration	Interest Subsidy	Loan Losses & Guarantees	Counselling & Assistance for Farmers	2000 Total	1999 Total
			(In thousands)			
Appropriation approved	$ 5,933	$ 10,600	$ -	$ -	$ 16,533	$ 22,092
Appropriation not required	(650)	-	-	-	(650)	(4,471)
Grant proceeds available	5,283	10,600	-	-	15,883	17,621
Expenditures						
Administration	5,510	-	-	-	5,510	6,700
Interest	-	29,143	-	-	29,143	30,589
Provision for losses	-	-	(622)	(428)	(1,050)	2,748
Less						
Interest income	-	(17,376)	-	(117)	(17,493)	(21,751)
Other income	(496)	-	-	-	(496)	(961)
Counselling and assistance for farmers	-	-	-	-	-	(9)
Net expenditure (revenue)	5,014	11,767	(622)	(545)	15,614	17,316
	$ 269	$ (1,167)	$ 622	$ 545	$ 269	$ 305

Agricultural Credit Corporation of Saskatchewan
1999/00 Supplementary Payment Information

Personal Services - Out-of-Scope - The following is a list of individuals who received payments for salaries, wages, honorariums, severances, etc. totalling $2,500.00 or more.

Ballagh, Norman	229,550	Lewis, Glen	58,176
Ballard, Lyle	73,272	Manz, Gerald	19,357
Borschowa, Larry	5,322	Magnuson, Jackie	40,602
Boyce, James	69,555	Mazurkewich, Ted	58,038
Buchanan, Ross	17,938	McGowan, Robert	4,794
Byblow, Daryl	91,597	Mojelski, Carol	49,446
Cave, Norma	72,934	Neuls, Clinton	96,024
Childs, Kenneth	4,535	Nilson, Marilyn	35,385
Darie, Donald	123,790	O'Donnell, Larry	58,176
Davidson, Barry	58,176	Paul, Jim	58,005
Donnawell, Ernest	61,788	Pepin, Denis	58,176
Emberley, Charlene	10,242	Pierce, Donald	72,864
Ford, Donna	84,794	Rakochy, Joseph	80,064
Friesen, Karen	47,880	Robidoux, Gene	102,948
Galatiuk, Arch	55,170	Robinson, Mark	90,631
Gerein, Gary	58,176	Schulz, Pamela	48,288
Goodwin, Valerie	46,734	Schwartz, Thomas	69,555
Griffin, Susan	51,333	Shoemaker, Robert	61,788
Gulka, Zenovie	14,994	Stapleton, Charles	61,788
Hamilton, Kenneth	58,176	Sten, Kenneth	5,388
Hooper, Laurie	74,988	Stinson, Monique	40,788
Hopfner, Kathleen	53,312	Travis, Kathy	40,788
Horne, Michael	53,925	Trembath, Margot	23,728
Karcha, Wade	61,788	Turcotte, Lionel	58,176
Kesslering, Gail	58,017	Voth, Angela	66,052
Kutaj, Denise	41,208	Zini, Renato	12,078
Lefevre, Philip	58,176	**Total**	**3,008,472**

Travel Expenses - The following is a list of Minister's or their equivalent's travel expenses

Total	**0**

Other Payments - The following is a list of payees who received $20,000 or more for purposes other than grants or personal services. For example rent, contracts, equipment, office supplies, etc.

ACS Share of Ministerial Assistant Expenses	106,491
CDI Computer Dealers Inc.	26,147
Dell Computer Corporation	45,058
MacPherson, Leslie & Tyerman	190,604
Price Waterhouse Coopers	86,502
Saskatchewan Property Management Corp.	501,739
Sasktel	115,953
Wang Canada Ltd.	26,786
Total	**1,099,281**